

MUNICIPALITY:

xxxxxxx, NH

ASSESSMENT YEAR:

20xx

ASSESSED PROPERTY:

4279 xxxxxx Road

xxxxxxx, NH

Owned by: xxxxxx and xxxxx xxxxxxxxxxxx



Prepared By:

xxxxxx xxxxxxxxx
xxxxxx *Valuation Services (or Assessor)*
xxx xxxxxx Street
xxxxxxx, NH xxxxx

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SECTION 1

Letter of Transmittal

Selectmen, and Assessing Officials
Municipality of xxxxxx
P.O. Box xxx
xxxxxxx, NH xxxxx

LETTER OF TRANSMITTAL

RE: **4279 Xxxxxx Road, Xxxxxxx, NH; Owned by: Xxxxx and Xxxxxx Xxxxxxxxxx**

Dear Municipal Official:

The following report is intended to document the entire process associated with the data collection, review, analysis and reporting necessary to render a credible opinion of value in accordance with RSA 21-J:14-b, and “Standard 6” of the Uniform Standards of Professional Appraisal Practice (USPAP, 2005).

The Intended Use of this Report: is to provide a basis for the assessment of the above-referenced property in the *Municipality of xxxxx* as required by the *contract (or in-house work plan)*, dated *xx/xx/xx*, signed between the *Municipality of xxxxxxxx and xxxxxxxx Valuation Services (or) the Municipality’s assessor*. A copy of this *contract (or in-house work plan)* is retained in Appendix “A”.

The Intended Client Of This Report: are the Municipal Officials.

Other Users Of This Report: include the public, property owners, municipal officials, and the DRA.

The Date of Value Utilized in this Report: is April 1, *20xx*, as required by RSA 74:1 and RSA 76:2.

Type and Definition of Value Utilized in this Report: The type of value expressed in this report is “market” value, and is defined in RSA 75:1 as: “the property's full and true value as the same would be appraised in payment of a just debt due from a solvent debtor”.

An expanded definition of “Market Value” as defined within the NH Department of Revenue, Property Appraisal Division’s “600 Rules”, establishes the market value of a property must meet the following criteria:

- (a) Is the most probable price, not the highest, lowest or average price;
- (b) Is expressed in terms of money;
- (c) Implies a reasonable time for exposure to the market;
- (d) Implies that both buyer and seller are informed of the uses to which the property may be put;
- (e) Assumes an arm’s length transaction in the open market;
- (f) Assumes a willing buyer and a willing seller, with no advantage being taken by either buyer or seller; and

(g) Recognizes both the present use and the potential use of the property.¹ (NH Department of Revenue, Property Appraisal Division, “600 Rules”; Rev 601.14.)

Identification of the Property Rights Assessed in this Report: The type of property rights is “fee simple”. Fee Simple Estate is defined as:

"Absolute ownership unencumbered by any other interest or estate; subject only to the limitations imposed by the government powers of taxation, eminent domain, police power, and escheat (the right of government to take title to property when there are no apparent heirs)." ²
(The Dictionary of Real Estate Appraisal, Third Edition, 1993, Page 140.)

Extent of Property Inspections: As required by the *contract (or in-house work plan)*, dated xx/xx/xx, signed between the Municipality of xxxxxx and xxxxxxxx Valuation Services (or) the Municipality's assessor, the appraised property was inspected on xx/xx/xx. The inspection comprised an on-site inspection, and I personally measured the subject improvement and walked most areas of the site readily accessible by foot.

If No Physical Inspections, An Explanation For This Decision: *Refer to above, and provide an explanation.*

Certification Of Value:

The undersigned certifies that, to the best of my knowledge and belief:

- 1) The statements of fact contained in this report are true and correct..
- 2) The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, impartial, and unbiased professional analyses, opinions and conclusions.
- 3) I have no present or prospective interest in the property that is the subject of this report, and I have no personal interest with respect to the parties involved.
- 4) I have no bias with respect to any property that is the subject of this report or to the parties involved with this assignment.
- 5) My engagement in this assignment was not contingent upon developing or reporting predetermined results.
- 6) My compensation for completing this assignment is not contingent upon the reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- 7) The analyses, opinions and conclusions were developed, and this report has been prepared in conformity with "Standard 6" of the Uniform Standards of Professional Appraisal Practice (USPAP, 2005).
- 8) I have *(or have not)* made a personal inspection of the properties that are the subject of this report. These individuals, and/or anyone providing significant appraisal assistance to the individual signing this report, are identified in Appendix "B", at the back of this report.
- 9) My opinion of the total market value, pursuant to RSA 75:1, and the NH Department of Revenue, Property Appraisal Division "600" Rules, Rev. 601.14, for the assessed property identified in Section I of this report, as of April 1, 20xx, is:

\$x,xxx,xxx

xxxxxx xxxxx, President

xxxxxxx Valuation Services (or)

Municipality's assessor

SECTION 2

Scope of Work

Identification of Assumptions And Limiting Conditions:

The following Assumptions and Limiting Conditions apply only to the sale data utilized to complete the sales analysis, and/or establish the basis for the statistical benchmarks incorporated into the analysis. Any exceptions to the following Assumptions and Limiting Conditions will be documented on the individual property record cards, when applicable.

- 1) *We (I)* have not been provided deeds to the assessed property. Therefore, no responsibility is assumed for the legal description provided or for matters pertaining to legal issues and/or title.
- 2) *We (I)* have not been provided deeds to the assessed property. Therefore, the property was assumed to be free of any and all liens and encumbrances. The property has also been appraised as though under responsible ownership and competent management.
- 3) *We (I)* have not been provided a survey of the assessed property. Therefore, *We (I)* have relied upon tax maps and other materials provided by the Municipality in the course of estimating the property's physical dimensions, if not personally inspected, and the acreage associated with assessed property.
- 4) *We (I)* have not been provided a survey of the assessed property. Therefore, *We (I)* have assumed that the utilization of the land and any improvements is located within the boundaries of the property described, and there is no encroachment on adjoining properties.

- 5) *We (I)* assume that there are no hidden or unapparent conditions associated with the property, subsoil, or structures, which would render the appraised property (land and/or improvements) more or less valuable.
- 6) *We (I)* assume that the property and/or the property's ownership are in full compliance with all applicable federal, state, and local environmental regulations and laws.
- 7) *We (I)* assume that all applicable zoning and use regulations have been complied with.
- 8) *We (I)* assume that all required licenses, certificates of occupancy, consents, or other instruments of legislative or administrative authority from any private, local, state, or national government entity have been obtained for any use on which the value opinion contained within this report is based.
- 9) *We (I)* have not been provided a hazardous condition's report, nor are we qualified to detect hazardous materials. Therefore, evidence of hazardous materials, which may or may not be present on the appraised property, was not observed. As a result, the final opinion of value is predicated upon the assumption that there is no such material on the appraised properties that might result in a loss, or change in value.
- 10) Information, estimates and opinions furnished to the appraisers and incorporated into the analysis and final report, was obtained from sources

assumed to be reliable and a reasonable effort has been made to verify such information. However, no warranty is given for the reliability of this information.

- 11) The Americans with Disabilities Act (ADA) became effective January 26, 1992. We have not made compliance surveys nor conducted a specific analysis of any property to determine if it conforms to the various detailed requirements identified in the ADA. It is possible that such a survey might identify non-conformity with one or more ADA requirements, which could lead to a negative impact on the value of the property(s). Because such a survey has not been requested and is beyond the scope of this appraisal assignment, *We (I)* did not take into consideration adherence or non-adherence to ADA in the valuation of the properties addressed in this report.
- 12) The market forecasts, projections and operating estimates contained within the report are predicated upon current market conditions, and forecasts of short-term supply and demand factors. This information was obtained in the course of interviews with knowledgeable parties, and in published public and private resources. While this information was assumed to be credible, these forecasts are subject to change due to unexpected circumstances, including local, regional and/or national.
- 13) The opinion of value in this report applies to the entire property, and any allocation or division of the value into separate fractional interests will invalidate the opinion of value reflected in this report.

- 14) Information pertaining to the sales of properties utilized in the analysis and subsequent report has been confirmed with either the buyer, seller, or a third party when ever possible, and is assumed to be reliable.
- 15) Possession of this report does not carry with it the right of reproduction, and disclosure of this report is governed by the rules and regulations of the New Hampshire Assessing Standards Board (ASB), and is subject to jurisdictional exception and the laws of New Hampshire.

Scope of Work as Identified in the *Contract (or in-house work plan)*: The valuation report that follows is predicated upon the *contract (or in-house work plan)* dated *xx/xx/xx*, and signed between the *Municipality of xxxxxx and xxxxxxxx Valuation Services (or) the Municipality's assessor*. *A copy of the contract (or in-house work plan) is* located in Appendix "A" of this report. The scope of work identified in *the contract (or in-house work plan)*, and incorporated into the following report comprised the following steps:

The *contract (or in-house work plan)* stipulated that *an interior and exterior inspection was required. The economic feasibility of various legal uses of the property have been considered and analyzed and, together with consideration given to the physical aspects of the property, have led to a conclusion as to the highest and best use of the subject. Extensive research was conducted to appropriately understand the market associated with the highest and best use conclusion identified in this study. Additional research was undertaken in order to find useful comparable sale data (if applicable), income and expense data (if applicable), and cost new and depreciated cost information (if applicable).*

As described in the following Valuation Premises section, the methodology adopted in this appraisal entailed completion of all three approaches to value, including the Cost, Sales

Comparison and Income approaches to value. Each approach reflects, by varying degrees, the way a property such as the subject is traded in the subject market. All of the comparable sales were verified with a party involved or a third party knowledgeable of the transaction. Finally, all three values, reached by independent valuation techniques, were reconciled, a final opinion of value was selected, and a USPAP-compliant report was prepared.

Upon completion of the final review and approval of the value by the Municipality's Board of Selectmen, a notice of value was then mailed to the owner of the appraised property. The tax notice also included sufficient information (timing and location) to enable the taxpayer to attend an informal hearing to "appeal" the new assessed value. Hearings were then held at a time and location scheduled by the Municipality. Any changes that arose from the appeal and hearings process were reflected in the final tax bill for 20xx.

This report was then prepared in conformity with "Standard 6" of the Uniform Standards of Professional Appraisal Practice (USPAP, 2005), as well as *the contract (or in-house work plan), dated xx/xx/xx signed between the Municipality of xxxxxx xxxxxxxx Valuation Services (or) the assessor.*

Brief Description of the Assessed Property: In accordance with the *contract (or in-house work plan)* located in Appendix "A" of this report, *the Municipality of xxxxxx required the subject property, identified as: 4279 Xxxxxx Road, Xxxxxx, NH; and owned by: Xxxxxx and Xxxxxxx Xxxxxxxxxxx, to be valued as of April 1, xxxx. The property was inspected on xx/xx/xx.*

The appraised property is a one-story industrial building, constructed in 1984, and comprising approximately 23,893 gross SF on approximately 2.0 acres of land. The subject improvement was designed to accommodate a single-user tenancy, and is currently owner-occupied. The subject currently has approximately 7,790 SF of office space and 16,190 SF of warehouse space. It is important to note that, as is typical for these types of industrial buildings,

the interior demising walls can be (relatively) easily altered, and the corresponding allocation of office and warehouse space can be modified for other users.

The subject has a concrete foundation and slab floor, steel and wood-frame construction, and a steel roof. The subject improvement is heated by forced hot water heaters, and fueled by both propane and wood. Each is capable of approximately one million BTU output, according to the property owner. The subject's offices are air conditioned, sprinklers are located in the offices and warehouse, and a security system and monitored fire alarm is available as well. The office space is generally carpeted, and finished with suspended tile ceilings and fluorescent lighting. Additionally, three hi-level docks and one drive-in ramp are located in the warehouse portion of the subject, which has a 16-foot clearance. Five bathrooms of varying size and capacity are located in the building.

Ample paved on-site parking spaces are available, in an amount adequate to meet the needs of any likely tenancy (current or future). Finally, my inspection of the appraised property confirmed that the subject property did not benefit from either excess or surplus land.

Determination of Highest and Best Use: Highest and Best Use is defined as:

"The reasonably probable and legal use of vacant land or improved property, which is physically possible, appropriately supported, financially feasible, and that results in the highest value. The four criteria the highest and best use must meet are: legal permissibility, physical possibility, financial feasibility, and maximum profitability" ³ (The Dictionary of Real Estate Appraisal, Third Edition, 1993, Page 171)

The highest and best use of both land as if vacant and property as improved must meet four criteria. The highest and best use must be legally permissible, physically possible, financially feasible, and maximally productive. This analysis will take place in two steps, the first considering the land as though vacant followed by consideration as improved

LAND AS THOUGH VACANT

Legally Permissible

The subject is located in the 'IND-L' Light Industrial District and the legally permitted uses include (generally): light industry, warehouse, etc.

Physically Possible

The subject encompasses 2.0 acres of generally entirely usable land that enjoys approximately 220 feet of Airpark Road frontage. Overall, the subject's physical shape, topography, apparent soil characteristics make it suitable for development into all of the uses listed above as legally permissible.

Financially Feasible

The subject is located within desirable proximity to two interstate highways, I-89 and I-93. The subject's immediate neighborhood is dominated by industrial and related commercial use, and many of these industrial properties are owner-occupied. Therefore, the subject, as vacant, due primarily to the interstate highway proximity the subject location enjoys, is considered to be a very desirable location for commercial development. Therefore, in light of the above, commercial development of the subject site is considered to be financially feasible.

Maximum Profitability

The maximally productive use is that which results in the highest return to the subject property. *Since economic factors bearing on the commercial and industrial land market have generally improved over the last several years, despite the recent slowdown of price appreciation in residential housing, and based upon the generally sound demand for high-quality industrial space in the subject market, it is my opinion that the most likely commercial development of the subject would be as a industrial building.*

LAND AS THOUGH IMPROVED

The highest and best use of the property as improved must satisfy the same four criteria as for the land as though vacant. *However, since a structure already exists on the property, this study focuses primarily on whether to continue to utilize the structure (as it exists or modified) or to demolish it and utilize the subject site for new development.*

My market investigations and interviews with knowledgeable brokers in the area suggest the market value for the subject site, assumed vacant and available for development, would be below our concluded market value of the subject property as presently improved. Therefore, it is my opinion that the existing improvements contribute to the subject's value and should not be demolished. This opinion is also supported by the subject's own market experience as of the date of value, as it continues to be occupied and is well-maintained.

SECTION 3

Valuation Premises and Procedures

Description of Basic Valuation Theory and Mass Appraisal:

Basic Valuation Theory:

- 1) The appraiser's first task is to identify what property is being appraised. This includes not only the physical aspects of the property, but the property rights as well.
- 2) There are six basic property rights associated with the private ownership of property, these include: 1) the right to use, 2) the right to sell, 3) the right to lease or rent, 4) the right to enter or leave the property, 5) the right to give away, and 6) the right to refuse to do any of these. These, and other rights, are known as the full "bundle of rights", which is understood to be attached to an ownership with "fee simple" title which has been described in the preceding section.
- 3) The New Hampshire Supreme Court has ruled that for the purpose of property taxation, the appraised property rights are assumed to be "fee simple".⁴ (NH Supreme Court, "Kennard v. Manchester, 68 N.H. 61, 36A, 553 (1894)
- 4) The next step is to identify the "highest and best use" of the property. "Highest and best use" refers to the maximally productive use of the property, both vacant and as improved (if applicable) after considering the legally permissible, physical possible, financially feasible, and maximally profitable uses of the property..

- 5) Once the highest and best use has been determined, the appraiser begins the process of data collection corresponding to the highest and best use conclusion in order to remain “internally consistent”. In other words, the market data must be consistent with the highest and best use conclusion. For instance, if the highest and best use of the subject property is an “industrial” use, the appraiser should research industrial sale and/or income expense data...not office or residential data. The appraiser then studies the market and accompanying economic forces (such as “supply and demand”) that pertain to the highest and best use, and assembles the relevant data and statistics for incorporation into the analysis.
- 6) Strategies for data collection will vary with the type of data being sought, and may not be the same for every property “use”. Overall, the comparative data, which may include descriptions and/or confirmations of physical attributes (such as total size, number of units, presence of a finished office space, etc.) cost, income and expense information, and details of sale or transfer information are collected, if applicable.
- 7) At this point, there are primarily three “approaches” or analytical techniques utilized to develop an opinion of value. Completion of all three of the preceding independent approaches to value is preferable, since each independent approach provides a useful “test of reasonableness”, and more such tests are preferable to fewer such tests. However, it is not always possible to complete a specific approach due to the unavailability of sufficiently meaningful data.

7A) The first valuation technique is referred to as the “Sales Comparison Approach”, and is based on the premise that the appraiser can utilize sale prices of similar properties as evidence of value. In other words, assuming similar market conditions (supply and demand) a similar property would sell for a similar price.

However, because no two properties are ever exactly alike, and market conditions can change, a systematic series of “adjustments” are made to the sale property in order to bring it into conformity with the appraised property. Overall, the Sales Comparison Approach is based upon the principle of “substitution”, which assumes that when several similar properties are available the property with the lowest price will attract the greatest demand. According to the principle of “substitution”, a buyer will not pay more for one property than for another that is equally desirable, all else being equal.

7B) The “Cost Approach” is based on the concept that the likely value of an existing property is the value of the underlying land plus the replacement cost of the depreciated improvements. Typically, a Cost Approach would not be utilized for an appraisal of vacant land. The replacement cost of the improvement is typically derived from published cost tables, or derived directly from localized information, and should be updated as required by market conditions. Importantly, the assessor typically evaluates the existing improvement on the basis of its “utility” and function, rather than attempting to duplicate or exactly “reproduce” the assessed property. Similar to the Sales Comparison Approach, the Cost Approach is also based upon the principle of “substitution”.

7C) The “Income Approach” is based upon the principle of “anticipation” which recognizes that value is created by the owner’s expectation of future benefits. Typically, these benefits are anticipated in the form of income, and/or in the anticipated increase in the property’s value over time. This technique requires that the appraiser estimate the potential gross market income for the property at its highest and best use, subtract all appropriate expenses to derive the net operating income. The net operating income is then divided by a “capitalization” rate, or the market-derived rate investors would expect on alternative investments that share the same degree of risk as the appraised property.

- 8) Finally, the different values reached by these independent techniques are “reconciled”, and a final opinion of value is selected. A reconciliation is accomplished by evaluating both the quality of the information available and the market’s own preferences relative to a particular property or use (i.e., the industrial market may behave differently than the office market, etc.).

Approaches to Value Considered and/or Utilized: *The appraised property is a one-story industrial building, constructed in 1984, and comprising approximately 23,893 gross SF on approximately 2.0 acres of land.*

(1) The subject is conforming to other industrial properties in its market, and sufficient market data was available to complete all three approaches to value. The Cost, Income and Sales Comparison approaches, each have their respective strengths and weaknesses, but generally utilized by market participants in the course of their purchase and sale decisions.

Or, for example

(2) The subject is conforming to other industrial properties in its market, and sufficient market data was available to complete only a Sales Comparison and Cost approach to value.

Approaches to Value Not Utilized, With an Explanation:

(1) A Cost Approach was not completed because investors in the subject market rarely utilize this technique. Typically, this market places greater emphasis on the sales and Income approaches to value. In addition, the calculation of depreciation is very speculative, and prone to error.

Therefore, completion of a Cost Approach would have added very little to a reliable final reconciliation and opinion of value.

Or, for example

(2) Every effort was made to obtain actual income and expense information from the property owner. However, no income/expense information was received and I was unable to develop a reliable understanding of the income, expense and vacancy history of the appraised property. Therefore, an Income Approach to value was not utilized.

Or, for example

(3) All three approaches to value were completed, and none was excluded from consideration.

SECTION 4

Cost Approach

The cost approach seeks to determine the replacement cost new of an improvement less depreciation, plus land value. A Cost Approach would not be utilized in the valuation of raw land. The actual method of estimating the value of improved property comprises: estimating the total cost of construction (including hard and soft costs, entrepreneurial profit, etc.) based on replacement or reproduction cost new (or trended historic cost often adjusted by a local multiplier); subtracting depreciation from all sources; and then adding the estimated land value. The land value is most frequently determined by a separate sales comparison approach analysis.

Depreciation is the loss in value of an object, relative to its replacement cost new, reproduction cost new, or original cost, whatever the cause of the loss in value. Depreciation is sometimes subdivided into three types: physical deterioration (wear and tear), functional obsolescence (suboptimal design in light of current technologies or tastes), and economic obsolescence (due to external influences beyond the boundaries of the appraised property, poor location or radically diminished demand for the product).

Physical depreciation typically arises solely from the reduced physical condition of the property or a shortened life span as the result of ordinary use, abuse, and action of the elements.

Functional Obsolescence is the loss in value of a property resulting from changes in tastes, preferences, technical innovations, or market standards; or deficiencies in construction that become apparent because the construction is not in conformity with market expectations or requirements for properties similar to the subject.

External (Economic) Obsolescence is the loss of appraisal value (relative to the cost of replacing a property with property of equal utility) resulting from causes outside the property. For example a single-family residence located next-door to an auto service station will suffer from external/economic obsolescence, and would likely sell for less than a similar property located to other residential (conforming) properties. Conversely, an external influence can have a positive impact on property value, all else being equal, such as a property that benefits from a “view” overlooking a scenic area.

Explain Calculation and/or Derivation of Cost Basis “New” Before Depreciation:

As described above, estimating the value of improved property comprises: estimating the total cost of construction (including hard and soft costs, entrepreneurial profit, etc.) based on replacement or reproduction cost new (or trended historic cost often adjusted by a local multiplier).

Explanation: The appraised property is a one-story industrial building, constructed in 1984, and comprising approximately 23,893 gross SF. The cost basis for the 23,893 SF was derived from local builders such as Mr. Xxxx XXXXXXX, Mr. XXXXXXX XXXXXXXX, and Mr. XXXX XXXXXXX. Additionally, the most current manual from the Marshall Swift Valuation Service was consulted, and the appropriate improvement costs, on a per square foot basis, were identified as follows: \$xx/SF.

Explain Derivation of all Forms of Depreciation:

As described above, there are primarily three types of depreciation, they are: physical, functional, and economic or external. Each type of depreciation must be considered, at the very least, in order to complete a credible analysis.

The rationale and explanation for the amount of depreciation utilized, or excluded, in the analysis follows:

Physical

Explanation: xxxxxxxxxxxxxxxxxxxx

xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx

xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx

Functional

Explanation: xxxxxxxxxxxxxxxxxxxx

xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx

xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx

Economic (or External)

Explanation: xxxxxxxxxxxxxxxxxxxx

xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx

xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx

Explain Exclusion of Any Element of Depreciation:

Typically, all three types of depreciation are possible. However, on occasion, one or more element of depreciation may not be present, and/or insufficient information may not be available to calculate it. Therefore, not all types of depreciation are always accounted for in the Cost Approach. However, if excluded, an explanation is appropriate since USPAP requires that

all forms of depreciation be considered. *Therefore, functional depreciation was not included in the Cost Approach because xxxxxxxxxxxxxxxx*

Explain Derivation of Land Value, if Applicable:

The underlying land is frequently an important component of the Cost Approach to value. Sometimes, however, “original cost” information for certain property types may be provided in such a way that includes land value in the original cost basis. In these isolated instances, a separate calculation for land value may not be necessary. However, when a discrete land value is required, land value is typically derived from a sales comparison analysis wherein conforming land sale data is analyzed, and adjusted relative to the appraised property. Therefore, *the discrete land value for the appraised property was derived by completing a sales comparison analysis. We utilized the following sale data we identified as sufficiently conforming to the subject property. Upon completing the analysis, we found that the value of the subject land was \$xxxxxx per acre.*

Summary and Final Opinion of Value by the Cost Approach, if Applicable:

Improvement Cost New: \$1,553,045

Total Depreciation @ 30%: (\$465,914)

Total Depreciated Cost: \$1,087,131

Land Value: \$250,000

***Total Value:* \$1,337,131**

SECTION 5

Income Approach

As described in Section 3, the first step in an income approach entails identifying the potential gross revenue for the appraised property. The second step is to subtract the anticipated (market-derived) vacancy rate from the potential gross revenue, or any other factors (such as “non-collectible revenues”) if applicable, to generate the “effective” gross income. The third step is to identify and subtract all expenses from the effective gross income, in order to generate the net operating income, or “NOI”. An explanation for the assumptions utilized in each of these steps follows:

Explain Derivation of Potential Gross Revenue: Is the total potential income attributable to the appraised property at full occupancy, before operating expenses are deducted. Importantly, the potential gross income should be predicated on “market” information, and not necessarily actual income, if the actual/contract income is not at market.

The basis for the derivation of the total potential gross revenue follows:

Explanation: xxxxxxxxxxxxxxxxxxxx

xx

xx

Explain Derivation of “Effective” Gross Revenue: Is the anticipated income from all operations adjusted for vacancy and collection losses, if applicable.

The rationale and explanation for deductions attributable to vacancy, collection losses, and any other variables (depending on property type) follows:

Deductions for Vacancy, Collection Loss, etc.

Explanation: xxxxxxxxxxxxxxxxx

xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx

xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx

Explain Derivation of Expenses: Is the total expenses, from all sources, experienced by the appraised property. These expenses typically include such items as: management, administration/legal, property insurance, property taxes, utilities, repair and maintenance, and a reserve account for anticipated future repairs.

The basis for the derivation of the various expense items follows:

Explanation: xxxxxxxxxxxxxxxxx

xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx

xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx

Explain Derivation of Net Operating Income (NOI): Is the actual or anticipated net income remaining after all operating expenses are deducted from effective gross income..

The derivation of the NOI to be capitalized in the next step is as follows:

Effective Gross Income: \$ xxxxxxxxxxxxxxxxx

(minus) -

Total Expenses: \$ xxxxxxxxxxxxxxxxx

Equals =

Net Operating Income: \$ xxxxxxxxxxxxxxxxx

Explain Derivation of Capitalization or Discount Rate: An “overall” capitalization rate is an income rate for a total property that reflects the relationship between a single year’s net operating income and the total property value. A “discount rate” describes any rate used to convert future cash flows over time into a present value. A “yield rate” is a specific type of discount rate that considers all expected property benefits, including the re-sale of the property (known as the “reversion”).

The basis for the derivation of the particular rate utilized in this appraisal follows:

Explanation: xxxxxxxxxxxxxxxxxxxx

xx

xx

Summary and Final Opinion of Value by the Income Approach, if Applicable:

Potential Gross Income (23,893 SF x \$9.50/SF) *\$ 226,984*

minus (-)

Vacancy/Collection Losses 5%: *(\$ 11,349)*

Equals (=)

Effective Gross Income: \$ 215,634

minus (-)

Total Expenses: \$ 84,000

Equals (=)

Net Operating Income: \$ 131,634

Divided by (/)

Capitalization Rate: 9.50%

Equals (=)

Total Value: **\$ 1,385,624**

SECTION 6

Sales Comparison Approach

As described in Section 3, the Sales Comparison Approach is predicated upon an analysis of “similar” properties (i.e., properties that are conforming because they are similar in “use” and share the same highest and best use as the appraised property). The key premise underlying the Sales Comparison Approach is that the market value of the appraised property is related to the negotiated prices paid for similarly competitive properties, all else being equal. This is referred to as the “principle of substitution”.

The comparative analysis between the appraised property and each sale is focused on the similarities and differences between the properties that affect value. Various property characteristics that may be associated with variations in value include: the “property rights” transferred in the sale; the motivations of buyers and/or sellers; financing terms; market conditions at the time of sale; the size of the property; the location of the property; the condition of the property; physical features of the property (lower or high grade construction, for instance); the size of the underlying land; other economic characteristics if the property generates income (Class “A” office versus Class “B” office, for instance). These elements of comparison are tested against market evidence to determine how important or sensitive the market is to a particular element of comparison, relative to the appraised property and the sale property, and adjustments are made accordingly.

Explain Selection of the Comparable Data: *The most conforming market data in the appraised property’s general market was selected. The market data selected for the analysis comprised five recent sales conforming in use with the subject property, and effectively bracketing the appraised property in size, age of construction, and lot size.*

Explain All Assumptions and Derivation of All Adjustments: The most appropriate way to evaluate the relative differences between the appraised property and the sale comparables is to evaluate the market’s response to these differences and adjust, up or down, accordingly. A summary of the various adjustments follows:

[Please note: Adjustment factors may vary from property to property. Add or modify as required.]

Property Rights

Explanation: xxxxxxxxxxxxxxxxxxxx

xx

xx

Conditions of Sales (Motivations of Buyers and Sellers)

Explanation: xxxxxxxxxxxxxxxxxxxx

xx

xx

Financing Terms

Explanation: xxxxxxxxxxxxxxxxxxxx

xx

xx

Market Conditions at Time of sale

Explanation: xxxxxxxxxxxxxxxxx

xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx

xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx

Property Location

Explanation: xxxxxxxxxxxxxxxxxxxx

xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx

xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx

Improvement Size

Explanation: xxxxxxxxxxxxxxxxxxxx

xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx

xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx

Improvement Features (Age, Quality of Construction, Quality of Finish)

Explanation: xxxxxxxxxxxxxxxxxxxx

xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx

xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx

Property Lot Size

Explanation: xxxxxxxxxxxxxxxxxxxx

xx

xx

Explain Selection of Final Value Opinion: The preceding analysis of all *five* sales provided the following indications of value, on an adjusted price per square foot basis:

Sale #1	\$46/SF
Sale #2	\$52/SF
Sale #3	\$64/SF
Sale #4	\$58/SF
Sale #5	\$62/SF

The adjusted sale prices of the five sale items above, indicate a value for the subject property in the range of \$46/SF to \$64/SF. All of the sales utilized in this analysis were considered to be useful indicators of the subject’s value, with some deserving of greater consideration in the final reconciliation, and others less consideration. In particular, the more compelling sale comparables were those that were the most similar to the appraised property in terms of the age of construction, size of the improvements, lot size, and location.

Sales #4 and #5 were the only sales located within the same industrial park as the appraised property. Additionally, Sale #4 was most similar to the subject in terms of the size of the improvement, the lot size, and the quality of the construction. Overall, therefore, most weight was given to Sales #4 and #5, and Sale #4 in particular.

Summary and Final Opinion of Value by the Sales Comparison Approach, if Applicable: *In light of the preceding discussion, a value of \$59/SF was considered reasonable. Therefore, \$59/SF x 23,893 SF = \$1,409,687 (rounded).*

\$1,409,687

Copy of Sales Comparison Analysis Grid

SECTION 7

Reconciliation

Provide Reasoning For Selection of Final Opinion of Value: All three approaches to value were utilized, and the value derived from each technique is as follows:

Cost Approach:	\$1,337,131
Income Approach:	\$1,385,624
Sales Comparison Approach:	\$1,409,687

The values derived by three independent techniques are relatively close, suggesting that the information utilized for each approach to value was market-derived and reliable. Overall, the Cost Approach was given relatively little weight due to the difficulty estimating depreciation. The appraised property is owner-occupied, as are many industrial properties in the subject's immediate market. As a result, the relevance of the Income Approach is considerably reduced, because the market seems to prefer owner-occupied industrial buildings, instead of leased properties owned by independent investors. Therefore, most weight and consideration was given to the Sales Comparison Approach, and the final opinion of value, as of the April 1, 20xx, date of value is:

\$1,385,000

SECTION 8

Appendices

Appendix 'A': Copy of *Contract (or in-house work plan)*

Appendix 'B': Qualifications of Individuals Responsible/Assisting in Completion of Report